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September 14, 2004

By Hand Delivery

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd floor
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 04-80

Dear Ms. Cottrell:

Enclosed please find the responses of Bay State Gas Company to the following requests in the Department's First Set of Information Requests: DTE 1-1, 1-4, 1-5, 1-6, 1-8, 1-9, 1-10, 1-11, 1-13, 1-14, 1-15 and 1-16.

The remaining responses will be filed by September 17.

Please contact me if you have any questions.

Very truly yours,

Robert L. Dewees, Jr.

RLD/tlm
Enclosures

cc: Marcella Hickey
Paul Osborne
Tom Carey
Cynthia Bradbury
James H. Keshian

BOS1417847.1

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FIRST SET OF INFORMATION REQUESTS OF THE DEPARTMENT
D.T.E. 04-80

Date: September 14, 2004

Witness Responsible: Vincent Rea

DTE 1-1: Refer to the pre-filed testimony of Vincent Rea at 4, line 8. Please explain the basis on which the Company determined the priority by which short-term debt would be paid down (i.e., whether the proceeds will be used to pay down short-term debt instruments with higher interest rates).

RESPONSE: With respect to the planned issuance of \$90.0 million of long-term debt prior to December 31, 2004, this entire amount will be used to pay down short-term debt. This includes \$37.0 million of short-term debt originating from prior maturities and early redemptions of long-term debt over the past fourteen months. The remaining \$53.0 million will be used to refinance short-term debt that currently supports long-term utility plant assets.

The NiSource Money Pool ("Money Pool") is the Company's only source of short-term borrowings. At any point in time, all Company borrowings from the Money Pool carry the same interest rate. Thus, there is no "interest rate priority" with regard to the Company's short-term borrowings.

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DTE 1-4: Refer to the pre-filed testimony of Vincent Rea at 5-6. Please provide the legal expenses that would be incurred in connection with the issuance of the proposed notes.

RESPONSE: The Company expects that total legal expenses associated with the issuance of the proposed notes would not exceed \$2,500 assuming the issuances of three or four notes. Legal fees would be primarily related to counsel's review of (a) Securities and Exchange Commission (SEC) Form U – 6B – 2, a form of notice which Bay State Gas must file with the SEC with respect to the proposed financing, and (b) review of documentation regarding corporate governance matters.

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DTE 1-5: Refer to the pre-filed testimony of Vincent Rea at 5, lines 1-8. Please explain whether the interest rate on the notes will be fixed at the time of issuance of individual notes over the life of the note, or vary with the applicable Treasury yield prevailing from time to time over the life of the note. If both fixed and adjustable rates are anticipated, please explain the reason for the selection of a combination of rates.

RESPONSE: The interest rate on the note(s) will be fixed at the time of issuance and will remain fixed over the entire life of the note(s).

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DTE 1-6: Refer to the pre-filed testimony of Vincent Rea at 5, lines 6-7. Please explain how the Reuters Corporate Spreads for Utilities is used to determine the credit spread associated with the Company's financial risk profile.

RESPONSE: The Reuters Corporate Spreads for Utilities provides an objective and independent approximation of Bay State's credit spread over U.S. Treasury bond yields that is specifically indexed to the Company's BBB/Baa2 credit ratings from Standard and Poors and Moodys. The Company's response to DTE 1-3 illustrates how the Reuters Corporate Spreads for Utilities is factored into the interest rate determination for the notes.

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DTE 1-8: Refer to the pre-filed testimony of Vincent Rea at 5 line 27, and 6, lines 3-4. Please explain how the Company determined the estimated underwriting commissions, additional costs, and transactional costs provided therein.

RESPONSE: Estimated underwriting commissions would be .60% - .65% of the principal amount, or \$720,000 to \$780,000. This information has been provided by investment banks that provide "pricing indications" for capital markets transactions to NiSource, Inc. (Bay State's parent company) on a regular basis. Combined legal, accounting, auditing, rating agency and other transaction fees have been estimated based upon past experience with similar capital markets transactions.

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Witness Responsible: Vincent Rea
Respondent: Counsel

DTE 1-9: Please discuss whether any approval of this financing would also be required under G.L. c. 164, § 17A.

RESPONSE: No approval of the proposed financing is required under G.L. c. 164, § 17A because the Company is only seeking authority to borrow funds, not to loan its funds to, guaranty or endorse the indebtedness of, or invest its funds in stocks, bonds or other securities of another corporation, association or trust.

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DTE 1-10: Please explain the benefits of the proposed financing to the Company and its customers, aside from the maturity terms and interest rate, using specific examples where possible.

RESPONSE: In addition to the favorable terms of the note(s) and the market based interest rate they will bear, the proposed financing avoids transaction costs, resulting in savings which will exceed \$900,000. A discussion of the benefits of the proposed financing is discussed in the testimony of Vincent Rea on page 5, lines 20-27 and page 6, lines 1-16.

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DTE 1-11: Please provide the name and title of the person who will be signing the promissory notes.

RESPONSE: Stephen H. Bryant, President, Bay State Gas Company will sign the promissory note(s).

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Witness Responsible: Vincent Rea

DTE 1-13: Refer to Exhibit 7 in the Company's Petition. Please provide a breakdown of the \$108,500,000 reported for long-term debt. As part of this response, explain whether any long-term debt maturing within one year has been excluded from the long-term debt balance.

RESPONSE: Please see Exhibit 3 of the Company's filing (copy attached). No long term debt maturing within one year has been excluded from the long term debt balance.

BAY STATE GAS COMPANY
LONG-TERM DEBT OUTSTANDING
AS OF JUNE 30, 2004

DESCRIPTION	AMOUNT	PERCENT OF TOTAL
9.20% notes, due 6/6/2011	\$8,500,000	8%
6.43% notes, due 12/15/2025	\$10,000,000	9%
6.26% notes, due 2/15/2028	\$30,000,000	28%
5.40% notes, due 3/21/2013	\$50,000,000	46%
Current Maturity, due 6/21/2005	\$10,000,000	9%
TOTALS	\$108,500,000	100%

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Date: September 14, 2004

Witness Responsible: Vincent Rea

DTE 1-14: Refer to Exhibit 7 in the Company's Petition. Please provide a breakdown by account of the \$146,765,658 reported for common stock and additional paid-in capital.

RESPONSE: Please see Attachment DTE 1-14.

Common Stock/Paid-in Capital Breakdown
As of June 30, 2004

<u>Account No.</u>	<u>Description</u>	<u>As of June 30, '04</u>
	<u>Common Stock</u>	
201	Cap Stock - Common Stock Issued	\$ 100
	Total Common Stock	100
	<u>Paid-in Capital</u>	
211	APIC - Tax Savings Allocation	870,173
207	Cap Stock - Premium	523,771,866
	Paid-in Capital	524,642,039
	Adjustments to Paid-in Capital:	
123	Investment - NU Capital	(107,162,810)
123	Investment - GPE Capital	(193,134)
	Acquisition Premium - Nipsco	(270,520,538)
	Total Adjustments	(377,876,482)
	Total Adjusted Paid-in Capital	146,765,558
	Total Common Stock and Adjusted Paid-in Capital	\$ 146,765,658

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DTE 1-15: Refer to Exhibit 7 in the Company's Petition. Please explain how the Company's gas inventories have been valued for purposes of the net plant test calculation provided herein.

RESPONSE: The Gas Inventories represents the balance of the fuel storage, including natural gas, LNG, as well as propane, as of June 30, 2004. The Company uses a weighted average cost of gas methodology to value such inventories.

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DTE 1-16: Refer to Exhibit 7A in the Company's Petition. Please explain the basis for the anticipated increases in gas inventories and net utility plant.

RESPONSE: Bay State anticipates an increase of \$9.2 million in its gas inventories from June 30 to December 31, 2004. The increase is due to the seasonal nature of its business: the injection of gas into underground storage usually takes place during the summer in preparation for the winter heating season. As a result, the peak levels of storage usually occur in October. The balance then declines during the November ~ March winter period. Therefore, the balance of storage is usually higher at the end of the year than it is at mid-year.

Bay State also anticipates an increase of \$4.2 million in net utility plant from June 30 to December 31, 2004. The increase is primarily based on a projection of normal capital investments in new business, as well as maintenance/betterment projects.